

FISCAL NOTE

Bill #: HB0355 **Title:** Increase cigarette tax and tobacco products tax
Primary Sponsor: Newman, B **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
Revenue:		
General Fund	\$47,711,169	\$46,351,125
State Special Revenue (LRBP)	\$252,367	\$213,029
State Special Revenue (DPHHS)	\$172,408	\$144,974
Net Impact on General Fund Balance:	\$47,711,169	\$46,351,125

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|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact
<input type="checkbox"/> Included in the Executive Budget
<input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Needs to be included in HB 2 |
|---|---|

Fiscal Analysis

ASSUMPTIONS:

1. The current law cigarette tax rate is \$0.18 per pack; under this proposal, the cigarette tax rate is increased by \$0.82 to \$1.00 per pack.
2. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
3. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 93.8% to the state general fund; 3.65% to the Long-Range Building Program Account; and 2.55% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
4. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 1.08% for the first 2,580 cartons purchased; from 4% to 0.72% for the next 2,580 cartons purchased; and from 3% to 0.54% for purchases in excess of 5,160 cartons.
5. Increasing the cigarette tax rate from \$0.18 to \$1.00 per pack will generate new net revenue of \$42,444,568 in fiscal 2004 and \$40,922,261 in fiscal 2005. Revenue to the state general fund will *increase* by \$42,019,945 in fiscal 2004 and \$40,564,267 in fiscal 2005. Revenue to the Long-Range Building Program Account will *increase* by \$252,367 in fiscal 2004 and \$213,029 in fiscal 2005. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will *increase* by \$172,408 in fiscal 2004 and \$144,974 in fiscal 2005.

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6. The impacts in assumption five are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RAT) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RAT's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of a tax increase. Given a base cost of \$3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
7. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs. These issues are being explored by the Department and will be incorporated in cigarette tax change impact analyses as data and forecast methodologies are further developed and refined.
8. The current law tobacco products tax rate is 12.5% of the wholesale price; under this proposal, the tobacco products tax rate is increased to 50% of the wholesale price.
9. Under current law and under this proposal, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
10. Increasing the tobacco products tax rate from 12.5% to 50% of the wholesale price will generate new general fund revenue of \$5,691,224 in fiscal 2004 and \$5,786,858 in fiscal 2005.
11. The impacts in assumption ten are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee's tobacco products tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to the base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.
12. Section 6 of this bill provides that wholesalers, distributors, and retailers shall pay the difference in tax between the former tax rate and the new tax rate on that portion of inventory subject to tax held by them on July 1, 2003, that exceeds all inventory subject to tax held by them on the last day of their most recently concluded income tax reporting year. This fiscal note assumes this section applies to both the cigarette tax (16-11-111, MCA) and the tobacco products tax (16-11-202, MCA.) The fiscal impacts in this fiscal note assume there will be no revenue impact in fiscal 2003 pursuant to section 6 of this bill.
13. This bill is effective July 1, 2003.
14. The following table shows the summary of the impacts from the cigarette tax increase and the tobacco tax increase under the assumption that there will not be significant stockpiling by the wholesalers or retailers of cigarettes taxed at \$0.18 per pack and tobacco products taxed at 12.5% of wholesale price, and there will not be significant amounts of illegal sales of cigarette and tobacco products.

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**Summary of Cigarette and Tobacco Tax Rate Increase Impacts
HB355 (2003 Session) As Introduced**

	FY2004	FY2005
Cigarette Tax		
Net Revenue		
Revenue - Current Law	\$ 10,630,000	\$ 10,497,000
Revenue - Proposed Law	\$ 53,074,568	\$ 51,419,261
Change In Revenue	\$ 42,444,568	\$ 40,922,261
% Change In Revenue	399.3%	389.8%
Change in Revenue		
General Fund	\$ 42,019,945	\$ 40,564,267
LRBP	\$ 252,367	\$ 213,029
DPHHS (Vet. Nursing Homes)	\$ 172,408	\$ 144,974

Tobacco Products Tax		
Net Revenue		
Revenue - Current Law	\$ 2,353,000	\$ 2,444,000
Revenue - Proposed Law	\$ 8,044,224	\$ 8,230,858
Change In Revenue	\$ 5,691,224	\$ 5,786,858
% Change In Revenue	241.9%	236.8%
Change in Revenue		
General Fund	\$ 5,691,224	\$ 5,786,858

Impact From Both Taxes		
Net Revenue		
Revenue - Current Law	\$ 12,983,000	\$ 12,941,000
Revenue - Proposed Law	\$ 61,118,793	\$ 59,650,119
Change In Revenue	\$ 48,135,793	\$ 46,709,119
% Change In Revenue	370.8%	360.9%
Change in Revenue		
General Fund	\$ 47,711,169	\$ 46,351,125
LRBP	\$ 252,367	\$ 213,029
DPHHS (Vet. Nursing Homes)	\$ 172,408	\$ 144,974

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FISCAL IMPACT:

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$47,711,169	\$46,351,125
State Special Revenue (LRBP) (02)	\$252,367	\$213,029
State Special Revenue (DPHHS) (03)	\$172,408	\$144,974

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$47,711,169	\$46,351,125
State Special Revenue (LRBP) (02)	\$252,367	\$213,029
State Special Revenue (DPHHS) (03)	\$172,408	\$144,974

TECHNICAL NOTES:

1. Section 6 of this bill doesn't specifically state if both the cigarette tax (16-11-111, MCA) and the tobacco products tax (16-11-202, MCA) are subject the transition clause.